

# **Audit**



# **Report**

OFFICE OF THE INSPECTOR GENERAL

**THE INTERNAL MANAGEMENT CONTROL PROGRAM  
AT THE DEFENSE CONTRACT MANAGEMENT  
COMMAND**

Report No. 93-174

September 30, 1993

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**Department of Defense**

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## **Acronyms**

AIMCR	Alternative Internal Management Control Review
DCMAO	Defense Contract Management Area Office
DCMC	Defense Contract Management Command
DCMD	Defense Contract Management District
DLA	Defense Logistics Agency
DLAR	Defense Logistics Agency Regulation
DPRO	Defense Plant Representative Office
IMC	Internal Management Control



INSPECTOR GENERAL  
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September 30, 1993

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY  
COMMANDER, DEFENSE CONTRACT MANAGEMENT  
COMMAND

SUBJECT: Audit Report on the Internal Management Control Program at the Defense  
Contract Management Command (Report No. 93-174)

We are providing this final report for your information and use. This audit determined whether the Defense Contract Management Command successfully implemented the Internal Management Control Program.

We provided a draft of this report to the addressees on July 16, 1993. Because the report contained no recommendations, no comments were required of management, and none were received. Additional comments are not required.

We appreciate the cooperation and courtesies extended to the audit staff. If you have any questions on this audit, please contact Mr. Salvatore Guli, Program Director, at (703) 692-3025 (DSN 222-3025) or Mr. Bruce Burton, Project Manager, at (703) 692-3178 (DSN 222-3178). Copies of this report will be distributed to the activities listed in Appendix D. Audit team members are listed inside the back cover.

A handwritten signature in cursive script, reading "E. Jones", is positioned above the printed name.

Edward R. Jones  
Deputy Assistant Inspector General  
for Auditing

**Office of the Inspector General, DoD**

**Report No. 93-174**  
**(Project No. 2CF-0034)**

**September 30, 1993**

**THE INTERNAL MANAGEMENT CONTROL PROGRAM AT THE  
DEFENSE CONTRACT MANAGEMENT COMMAND**

**EXECUTIVE SUMMARY**

**Introduction.** On February 6, 1990, the Defense Logistics Agency established the Defense Contract Management Command. The Defense Contract Management Command provides worldwide contract administrative services to DoD Components and other designated Federal and State agencies, foreign governments, and international organizations. Each DoD agency is required by the Federal Managers' Financial Integrity Act of 1982 to perform ongoing evaluations and to report to the President and Congress on the adequacy of internal accounting and administrative control systems.

**Objective.** The audit objective was to determine whether the Defense Contract Management Command successfully implemented the Internal Management Control program.

**Audit Results.** The 23 Defense Contract Management Command district and field offices did not adequately implement the Internal Management Control program. Also, the Defense Contract Management Command does not have a system to track costs for internal control functions such as risk assessments and control reviews.

- o Thirty-six percent of the risk assessments were not properly completed, and 89 percent of the internal management control reviews were either not performed, not adequate, or not documented. As a result, internal control weaknesses may occur and not be identified, and assessments may not properly measure the level of risks (Finding A).

- o The automated and manual risk assessment questionnaires for measuring vulnerability were inadequate and ineffective. As a result, vulnerability of assessable units may not be properly determined, and the real risk of loss may not be effectively measured. In addition, performance plans did not always designate internal management control responsibilities for personnel involved with risk assessments and internal management control reviews. As a result, the Defense Logistics Agency did not adequately hold personnel accountable for internal management control responsibilities (Finding B).

- o The Defense Contract Management Command is taking the corrective actions discussed in Part II to address the deficiencies disclosed during the audit. Consequently, we made no recommendations in this report. No comments were required of management, and none were received.

**Internal Controls.** The audit identified no material internal control weaknesses related to the Internal Management Control Program at Defense Contract Management Command. See Part I for a discussion of internal controls assessed.

**Potential Benefits of Audit.** No potential monetary benefits were identified during the audit. Improving internal controls could result in potential monetary benefits; however, the benefits could not be quantified.

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This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, (703) 614-6303 (DSN 224-6303).

## **Part I - Introduction**

## Introduction

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## Background

On February 9, 1990, the Defense Logistics Agency (DLA) established the Defense Contract Management Command (DCMC). DCMC provides worldwide contract administrative services to DoD Components and other designated Federal and State agencies, foreign governments, and international organizations. The Internal Management Control (IMC) program, implemented by DCMC, ensures that resources and programs are well managed.

**DCMC Organization.** DCMC is made up of six Defense Contract Management Districts (DCMDs): Northeast, Mid-Atlantic, North Central, South, West, and International. Each district is made up of field offices consisting of Defense Contract Management Area Offices (DCMAOs) and Defense Plant Representative Offices (DPROs).

**Federal Requirement.** The Federal Managers' Financial Integrity Act of 1982 (the Act) was enacted to amend the Budget and Accounting Procedures Act of 1950, which required the head of each department and agency to establish and maintain adequate systems of internal controls. The Act requires that the General Accounting Office develop internal accounting and administrative control standards. The Act also requires that each executive agency conduct an annual evaluation of its internal accounting and administrative controls system in accordance with guidelines established by the Director of the Office of Management and Budget. Further, the head of each executive agency is required to submit an annual statement to the President and to the Congress on the status of the agency's internal controls system.

**Department of Defense Requirement.** DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, implemented the Federal Managers' Financial Integrity Act and Office of Management and Budget Circular A-123, "Internal Controls Systems." DoD Directive 5010.38 requires each DoD Component to implement a comprehensive IMC system that provides reasonable assurance that obligations and costs are within applicable law, and emphasizes timely correction of specific weaknesses and prevention of waste, fraud, and mismanagement. DoD Directive 5010.38 also requires that each agency to develop a 5-year Management Control program to be updated annually. The primary purpose of the Management Control program is to identify the number of DoD Component risk assessments and planned follow-on actions for each of 15 functional reporting categories over the 5-year period. DLA Regulation (DLAR) 5010.4, "Internal Management Control Program," October 12, 1990, implements the IMC program requirements for DLA and DCMC. DLAR 5010.4 incorporates the guidelines and procedures of DoD Directive 5010.38 and requires DLA Headquarters to assign managers of each assessable unit the responsibility and accountability for IMC and for performing risk assessments and IMC reviews.



**Executive Departments and Agency Responsibilities.** In August 1986, the Office of Management and Budget revised Circular A-123 that prescribes policies and procedures to be followed by executive departments and agencies in establishing, maintaining, evaluating, improving, and reporting on IMC in their program and administrative activities. Circular A-123 prescribes that the head of each agency is responsible for ensuring that the design, installation, documentation, evaluation, and improvement of IMC and the reports issued on the agency's IMC are in accordance with the requirements of the Federal Managers' Financial Integrity Act and Circular A-123. Each department and agency should establish and maintain a cost-effective IMC system that provides reasonable assurance that Government resources are protected against fraud, waste, mismanagement, and misappropriation.

## Objective

The audit objective was to determine whether DCMC successfully implemented the IMC program. We assessed the adequacy of the IMC program and its reporting processes and reviewed the structure, framework, and procedures used in its implementation and the implementation of the Federal Managers' Financial Integrity Act from the DCMC inception date of February 6, 1990.

## Scope

We performed the audit by using a district-by-district approach to review the IMC program implementation at DCMC. We reviewed the adequacy of risk assessments performed, of completed IMC reviews, and of the oversight and guidance provided to field offices by the districts and by DLA Headquarters. We also reviewed the types of management tools used to prepare risk assessments and to determine vulnerability.

**Universe and Sample.** The total universe was 109 field offices, consisting of 37 DCMAOs and 72 DPROs. We selected a stratified sample of field offices from each district. We randomly selected three DCMAOs and five DPROs from each of the districts; however, we excluded DCMD International from the scope of this audit.

We initially reviewed implementation at two districts. After consulting with the IG, DoD, statistician, we selected DCMD Mid-Atlantic and DCMD West and visited the district offices and 16 field offices. Since the initial results disclosed widespread problems with implementing the IMC program, we determined that review of 24 more sites at the 3 remaining districts was not necessary to validate

## Introduction

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the audit results. However, based on a DLA Headquarters request, we reviewed the IMC program at five additional offices in DCMD Northeast. In total, we conducted reviews at 23 district and field offices. Appendix C lists the activities visited.

We reviewed the method for gathering data and for measuring risk for the Automated Risk Assessment Program at district and field offices. We also examined documentation of risk assessments and IMC reviews from October 1990 through September 1992. We determined that data such as the weighting of the questions used to measure risk and the measurement of the level of risk, input to the automated program, needed improvements. We did not rely on any other computerized data to conduct the audit.

**Audit Period and Standards.** This program audit was performed from July 1992 to April 1993 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, the audit included such tests of internal controls as were considered necessary.

## Internal Controls

We evaluated internal controls related to the implementation of the IMC program at DCMC district and field offices. We assessed the level of supervision that the district and field offices used when performing the risk assessment reviews for the assessable units. We reviewed the methods and procedures adopted by management to ensure that its goals and objectives were met and that resources were used consistent with Federal Managers' Financial Integrity Act, Office of Management and Budget Circular A-123, DoD Directive 5010.38, DLAR 5010.4, and local policies. No material internal controls weaknesses were noted.

## Prior Audits and Other Reviews

Inspector General, DoD, Report No. 92-055, "Forward Pricing Rate Agreements," February 27, 1992. The report stated that the DPROs did not complete internal control reviews and did not report risk assessment requirements consistently. The report disclosed that DPROs did not fully comply with DLAR 5010.4 and recommended that the DCMC commander initiate actions to verify that the DPROs were implementing DLAR 5010.4. As a result of the recommendation, DLA stated that it would hire an IMC trainer to identify those DPROs not in compliance with the DLAR and train the appropriate DPRO personnel. DLA also revised DLAR 5010.4 to clarify the areas of risk assessments and the IMCs.

Inspector General, DoD, Report No. 91-013, "Internal Review Activity at the Defense Logistics Agency," November 23, 1990. The audit evaluated the internal review activity's effectiveness in identifying and reporting internal control deficiencies and verifying that internal control weaknesses addressed in prior audit reports and the DLA Annual Statements of Assurance were corrected as reported. The report stated that the internal review activity needed to improve its evaluation and reporting of internal control deficiencies and that DLA did not have effective mechanisms to verify completion and effectiveness of corrective actions. DLA partially concurred with the recommendation to include corrective action taken on material weaknesses in the DLA Annual Statements of Assurance.

Inspector General, DoD, Report No. 89-016, "Report on the Fiscal Year 1988 Evaluation of the Implementation of the Federal Managers' Financial Integrity Act of 1982 at the Defense Logistics Agency," October 21, 1988. The report stated that DLA had complied with the requirements of Federal Managers' Financial Integrity Act and that no material changes existed in the system. No recommendations were made.

Inspector General, DoD, Report No. 88-033, "Report on the Fiscal Year 1987 Evaluation of the Implementation of the Federal Managers' Financial Integrity Act of 1982 at the Defense Logistics Agency," October 15, 1987. The report stated that DLA had complied with the requirements of Federal Managers' Financial Integrity Act and that no material changes existed in the system. No recommendations were made.

DLA Report No. DI-07-91, "Review of the Internal Management Control Program," May 14, 1992. The report covered the results of the DCMD West IMC program for the period October 1987 through June 1991. The report stated that DCMD West had not completed 98 percent of the planned IMC reviews. Of the 10 completed reviews, only 1 was completely documented and performed in accordance with DLAR 5010.4. The report recommended that a process action team establish a list of clearly defined assessable units and standardize those event cycles for the reviewers to use in the new 5-year cycle. At the time of our audit, the process action team had begun to define and standardize assessable units and event cycles.

## Other Matters of Interest

Office of Management and Budget Circular A-123 states that agencies shall establish and maintain a cost-effective system of internal controls. DCMC does not have a system to track costs for internal control functions such as risk assessments and control reviews. Management needs internal control cost information to make prudent decisions on use of resources. This cost information is especially important in directing assets to the highest priority work in light of current and future reductions in Defense budget amounts.

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## **Part II - Results of Audit**

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## **Finding A. Risk Assessments and Internal Management Control Reviews**

DCMC district and field offices either did not perform or did not complete risk assessments and IMC reviews. This condition existed because DCMC did not properly implement the IMC program or offer proper guidance and training to personnel at the 3 district and 20 field offices on how to conduct the assessments and reviews. As a result, internal control weaknesses may exist and may not be identified. Further, assessments may not properly measure the level of risk and thus may understate the susceptibility to fraud, waste, or mismanagement.

### **Background**

One goal of the IMC program is to increase management's awareness of the internal control structure of an organization. The IMC program helps to determine whether material internal control weaknesses exist or whether risk of loss is at an unacceptable level. DLAR 5010.4 prescribes that the manager of each assessable unit is responsible for managing the IMC program and for performing risk assessments and IMC reviews. The regulation defines risk assessment as a review documented by management that rates an assessable unit's susceptibility to fraud, waste, or mismanagement. DLAR 5010.4 requires DCMAOs and DPROs to perform risk assessment reviews at branch levels once in a 5-year period. The regulation also requires reviews to be completed for event cycles in all branches at least once in a designated 5-year period, no matter what the current risk level. An assessable unit that has been rated high risk must have an IMC review performed within the first 2 years of the 5-year period. The IMC review assists in determining whether actual practices and procedures are operating in the manner intended. In addition, the regulation states that adequate documentation will be provided with the review to allow an independent reviewer to reach the same conclusions.

### **Emphasis on IMC Program**

DCMC did not consider the IMC program an integral part of daily work requirements and therefore did not emphasize the details of the IMC program, which caused errors in the preparation of risk assessments and reviews. Specifically, district and field offices did not complete risk assessments and did

## **Finding A. Risk Assessments and Internal Management Control Reviews**

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not scrutinize completed risk assessments for computational and other errors. Additionally, completed IMC reviews often lacked supporting documentation. Also, the 3 district and 20 field offices inconsistently identified assessable units.

### **Risk Assessments**

We determined that 14 of 23 offices had assessable units for which management either did not perform risk assessments or did not perform complete risk assessments. In total, managers at the offices did not properly complete 56 (36 percent) of the 154 manually prepared risk assessments we examined. We concluded that DCMC did not provide adequate guidance and oversight to the district and field offices for the IMC program.

**Performance of Risk Assessments.** Of the 14 offices, 5 offices did not perform risk assessments for some assessable units, 4 offices did not prepare complete risk assessments, and 5 offices exhibited both traits during FYs 1990 through 1992. Appendix A summarizes the risk assessments. One primary area of confusion for management relates to risk assessments for the Command Support functions, a function that includes the administrative duties in support of the commander's office such as travel, training, and other administrative duties. Although most offices considered the Command Support function to be an assessable unit, six offices did not prepare risk assessments for these units. Therefore, confusion over what constituted an assessable unit was magnified by a lack of communication between the district office and the field office. The field offices relied on the district office to prepare a consolidated risk assessment of the Command Support function. However, the district IMC coordinator for DCMD Mid-Atlantic assumed that all field offices were preparing risk assessments for the Command Support function and was not aware that the assessments were not being done until our visit.

An example of a deficiency in risk assessments occurred when a preparer copied the results of a previous risk assessment onto a current risk assessment, implying it was current for that year. Another deficiency occurred when the same person who prepared the risk assessment in 1989 also reviewed it in 1991. We determined that the deficiencies occurred because DCMC did not provide adequate oversight and did not give guidance or training to personnel who handled risk assessments.

**Consistency of Assessable Units.** District and field office personnel performed risk assessments at various organizational levels (assessable unit) that were not in accordance with DLA regulations. An assessable unit is any organizational, functional, programmatic, or other appropriate division capable of being evaluated by IMC procedures. The normal organizational structure at district and field office consists of the Commander, divisions, and branches. Branch personnel performed IMC reviews based on event cycles. Event cycles are a series of steps or processes to get things done.

## **Finding A. Risk Assessments and Internal Management Control Reviews**

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Of the 23 offices visited, 15 performed risk assessments at either the division level or the event cycle level, even though DLAR 5010.4 specified that risk assessments should be performed at the branch level. In addition, these same field offices inconsistently prepared risk assessments. For example, at 14 field offices, personnel prepared risk assessments at the branch level while other personnel in that same office prepared risk assessments at the division level or event-cycle level. These deficiencies are examples of weaknesses in the IMC program. Appendix A summarizes the field offices and the levels at which the risk assessments were performed.

**Risk Assessment Questionnaires.** Risk assessment questionnaires are used to evaluate the overall vulnerability of an assessable unit. The questionnaires contained mathematical errors that affected the end result of the risk analysis. For example, a risk assessment completed at an office in the DCMD Mid-Atlantic contained a mathematical error. The error caused the preparer to determine a low "existing control" risk rating when in fact the risk was moderate. This example illustrates how easily the preparer can incorrectly assess the level of risk.

Risk assessments also contained confusing questions and unclear instructions to the user. As an example, a preparer was confused about the rating system on the risk assessment. The preparer thought that a high-risk rating meant a high level of assurance, when in fact it means the opposite. As a result, the assessment incorrectly stated the level of risk for the assessable unit. The wording of the questions on the risk assessments caused the preparers to understate or overstate the level of risk.

## **IMC Reviews**

Not all district and field offices followed DLAR 5010.4 when performing IMC reviews. District and field offices either did not perform or did not adequately perform IMC reviews because of a lack of guidance and training.

**Quality of IMC Reviews.** Of the 424 IMC reviews examined at the 3 districts, 376 were inadequate. In total, 75 percent of the reviews had no documentation, 13 percent had only partial documentation, 1 percent was improperly tested, and 11 percent was fully supported. See Appendix B for summary details for each district and field office. Additionally, IMC reviews contained other problems, the majority being that preparers misinterpreted or incorrectly interchanged the control objectives, techniques, and event cycles.

An event cycle on which an IMC review would be performed is a series of steps taken to get something done. An example of an event cycle would be the review of progress payments. The control objective in the event cycle should be tied to a risk, with its goal to reduce that risk. The control techniques are the



## **Finding A. Risk Assessments and Internal Management Control Reviews**

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actual steps or procedures in place that are used to meet the control objective. We discovered that personnel performing IMC reviews developed event cycles that could not be specifically measured or tested. In one example, the event cycle was "to maximize competition," but the preparer did not develop specific steps to test or measure this event cycle.

In four functional areas within DCMD Northeast, personnel did not perform IMC reviews for the 5-year period from FYs 1988 through 1992 because the district assessable units had low-risk ratings. The personnel responsible for preparing IMC reviews assumed that if the risk was low, then they were not required to do the IMC reviews.

Preparers were often unaware of the requirement in DLAR 5010.4 that specifies that the documentation accompanying each IMC review must be sufficient to enable an independent reviewer to arrive at the same conclusion as the preparer.

**Other Conditions.** We noted other problems in establishing evidence of preparation and review of IMC reviews. Personnel performing IMC reviews were both the preparer and reviewer. This dual role violates essential rules of internal controls on separation of duties and establishing checks and balances. Also, preparers of IMC reviews prepared a number of reviews all in 1 day. For example, at one location, the same person prepared 18 reviews in 1 day, and another person reviewed the 18 reviews on another day. This level of performance equates to less than 30 minutes for each risk assessment during a normal 8-hour day. Time spent is not commensurate with the high level of significance and importance that this duty entails. Additionally, the preparer or the reviewer or both did not sign about 16 percent of the IMC reviews.

**Alternative Internal Management Control Reviews.** The field offices used Alternative Internal Management Control Reviews (AIMCRs) for their IMC reviews. AIMCRs are performed for other purposes and can be used to meet the requirement for performing an IMC review such as reviews done for IG, DoD, audit reports. Alternative reviews should determine that control techniques in an assessable unit comply with Office of Management and Budget Circular A-123.

In some cases, AIMCRs were improperly used as substitutes for IMC reviews. Field offices were using reviews that evaluated contractor functions at DPROs or otherwise failed to review internal controls at field offices. An example would be a Defense Contract Audit Agency review of progress payments to a contractor. This review is not a review of the DCMC function and oversight of progress payments and should not be considered an AIMCR. The AIMCRs were also inconsistently treated in the field office 5-year Management Control plans. Sometimes AIMCRs were included as completed IMC reviews and at other times they were not mentioned in the 5-year plan.

## **Finding A. Risk Assessments and Internal Management Control Reviews**

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### **Contributing Factors**

Deficiencies in the IMC program stem from a lack of appropriate training, guidance, and oversight by DCMC Headquarters and the district offices. Besides training, the actual success of the IMC program, to a certain extent, depends on the level of guidance and oversight that higher-level offices provide. DCMC Headquarters written and oral guidance will allow field offices to better prepare risk assessments and IMC reviews. Oversight and feedback from DCMC Headquarters will allow the district offices to monitor the performance of IMC reviews and risk assessments prepared at the field offices.

**Training.** The DCMDs Mid-Atlantic and West did not provide adequate training for personnel in charge of preparing the IMC reviews. The 1- to 2-day IMC program training courses DLA provided to the field offices did not address the requirement to adequately document each review. DLAR 5010.4 states that all reviews should produce written materials documenting what was done and what was found. The deficiency in the training was evident by the lack of documentation supporting the IMC reviews. Of the 424 IMC reviews examined during the audit, only 50 (12 percent) were supported with sufficient documentation to allow an independent reviewer to follow the review and reach a similar conclusion.

DCMC had no uniform training approach for the IMC program. Training courses varied between districts and were, in our opinion, based on old philosophies of the former Defense Contract Administration Services Regions rather than a new DCMC approach. For example, personnel who prepared the IMC reviews at the DPRO General Dynamics, Lima, Ohio, a former Army Plant Representative Office, did not know that documentation was required to support IMC reviews. Before 1990, while assigned to the Army, the risk assessments and IMC reviews were prepared by Army Headquarters personnel instead of the Army Plant Representative Office personnel. Training for DPRO General Dynamics personnel was provided by the former Defense Contract Administration Services Region, Cleveland, Ohio, and encompassed the Cleveland region's approach to preparing IMC reviews.

This inconsistent training approach to the IMC program is also evident by the various forms that the districts used in preparing IMC reviews. As an example, DCMD West used the former Defense Contract Administration Services Region, Los Angeles, form while DCMD Mid-Atlantic used the former Defense Contract Administration Services Region, New York, form for some of its IMC reviews. The varying experience and background of the individual offices were not taken into consideration when developing and implementing field office training.

Although training courses were scheduled for the district and field offices, not all personnel received training. Also, DCMC personnel who received training expressed dissatisfaction with the training because they believed the training pertained more to financial managers and did not give appropriate attention to

## **Finding A. Risk Assessments and Internal Management Control Reviews**

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the administrative and functional areas involved in contract administration. In other instances, personnel indicated that the training was too general and lacked sufficient detail on preparing risk assessments and IMC reviews.

In contrast, DCMD Northeast initiated its own training program, which adequately covered the IMC program. The course offered a detailed approach to the IMC program and could be used as a model for creating a new, comprehensive IMC training program for all DCMC districts.

**Guidance.** The districts sent written guidance to the field offices regarding aspects of the IMC program. However, at the time of our visits, field offices were unable to provide evidence that they had either received or maintained all correspondence from the districts on the IMC program. As an example, six of eight field offices were not able to provide us with a copy of a memorandum that originated from DCMD Mid-Atlantic that explained the requirements for documentation of IMC reviews. This particular memorandum was supposedly distributed district-wide. Insufficient distribution of guidance or lack of record keeping allowed inadequate reviews to be performed throughout all the districts.

**Oversight.** The districts can provide oversight by conducting staff assistant visits and by providing feedback on the quality of risk assessments and IMC reviews that are forwarded from the field offices. The districts performed staff assistance visits at field offices to assess the operation of various field office functions or to evaluate overall performance for that field office. However, the districts usually did not review the IMC program during the visits. Districts reviewed the IMC programs of only 2 of 20 field offices in our review. In general, no evidence indicates that the districts reviewed field office risk assessments and IMC reviews for content and format. The monitor for DCMD West stated he did not have the time to review risk assessments and IMC reviews. In other districts where feedback was provided, the written comments were confined to "good job," when in fact the reviews did not have any supporting documentation. In several instances, the feedback was so incomplete that the district IMC monitor was actually unaware that certain assessable units were inconsistently treated or not reviewed by field offices.

## **DCMC Ongoing Corrective Actions**

In response to our review, DLA Policy Division has issued memorandums to its subordinate offices addressing the IMC program. To make employees more aware that IMC is an integral part of their work, DLA has restructured the program by redefining IMC reviews and risk assessments as processes that are integrated with work duties. DLA is also preparing a DCMC manual, the "One Book." The manual describes the best methods for the core processes of DCMC. The One Book chapter on the IMC program will provide guidance on

## **Finding A. Risk Assessments and Internal Management Control Reviews**

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sampling techniques and recommended formats for worksheets to be used for process reviews. Also, each process review will have a chapter devoted to flow charts, process goals, and process controls required for a process review.

**Process Risk Assessments and Process Reviews.** Districts, instead of each individual field office, will now perform process risk assessments. The districts were to be required to complete the first series of process risk assessments in FY 1993 and forward assessments to DCMC Headquarters. DCMC Headquarters will then make the final determination of the overall risk. The Management Control program will be set by each district for the 5-year plan for FYs 1993 through 1997.

Field offices will conduct process reviews using the flow charts, process goals, and process controls provided in the One Book. This will standardize process reviews and eliminate the use of the AIMCRs at the field offices. All the process reviews will be required to be completed during the first 6 months of the fiscal year in which they are scheduled. The districts will assess the reviews during the third quarter and forward to DCMC Headquarters the summaries of results including any material weaknesses.

**Documentation.** Each activity will be required to maintain a central file of complete documentation for process reviews covering a 5-year period. The districts will also maintain the 5-year file on the review documentation provided by their field offices.

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## **Finding B. Implementing Tools for Internal Management Control**

The DCMC automated and manual risk assessment tools for implementing the IMC program were inadequate and ineffective. In addition, performance plans did not separately designate IMC responsibilities. Sixty-eight of seventy-three personnel in our review did not have a separate critical element for internal controls. The tools were inadequate because DCMC Headquarters and district personnel did not emphasize the program, nor did the personnel modify the risk assessments to adequately assess risks for the mission and functions of assessable units. DCMC Headquarters personnel also did not verify that military and civilian performance plans designate IMC responsibilities for district and field office personnel involved with risk assessments and IMC reviews. As a result, DCMC may not be properly evaluating the vulnerability of assessable units and may not be effectively measuring the real risk of loss. In addition, managers are not adequately held accountable for IMC responsibilities in their assigned area and thus IMC duties may not be performed.

### **Risk Assessment**

DCMC conducts risk assessments of its assessable units using two basic tools: an automated risk assessment and a manual risk assessment. District and field offices inconsistently applied risk assessment tools. Some offices were using the automated risk assessment while others were using various formats of the manual risk assessment. The DCMC goal is to eventually have all DCMC district and field offices using the automated program to assess risk. However, in our opinion, deficiencies in both the automated and the manual risk assessments cause both systems to be ineffective tools for assessing risk.

**Automated Risk Assessment.** The Automated Risk Assessment Program, developed in 1990 by DLA, is a computerized system that calculates risks based on answers to statements and questions about vulnerability. The Automated Risk Assessment Program provides a measure of vulnerability to assist in directing resources to the areas with the greatest potential for loss. The Automated Risk Assessment Program calculates an overall risk based on the potential risk of loss and the existing safeguards.

**Effectiveness of Automated Risk Assessments.** Automated risk assessments were ineffective and did not adequately assess the true risk. We noted problems with the way weight was applied to certain questions developed

## **Finding B. Implementing Tools for Internal Management Control**

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to assess risk, apparent contradiction in statements in automated risk assessment reports, and an inappropriate method for determining the level of risk for existing safeguards.

**Weighting of Questions.** Questions were not weighted so that the most important questions to the assessment were given greater significance in determining the overall risk. For example, questions for which the responses indicated past instances of fraud, waste, abuse, or mismanagement; the handling of classified or sensitive information; and the process having impact on the economic well-being of outside contractors and Government agencies are more significant and should be given greater emphasis. In contrast, questions as to whether the process is subject to vague legislative authority or regulations and whether the process is subject to interest from the President should be given less emphasis as they are less significant in assessing the overall risk. Because all questions are given equal weight, it is possible for the risk assessment to disclose weaknesses in several significant areas and still result in an overall low vulnerability rating.

**Testing of Scenarios.** We tested our conclusion at DCMD Northeast by running seven scenarios through the automated program. In each of the scenarios, most or all of the significant questions were answered indicating high potential loss or weak controls, while the less important questions were answered indicating low potential loss or strong controls. Only one of the scenarios resulted in an overall high vulnerability. Because of the equal weighting of questions, the responses to the more significant questions were offset by the responses to the less significant questions. Thus, two of the scenarios resulted in low vulnerability and four resulted in moderate vulnerability. Based on the greater significance of the questions to which high risk or weak controls were indicated, it is our opinion that the low and moderate risk ratings understated the true vulnerability. The weighting of questions will give the more significant questions greater emphasis and thus result in a more accurate assessment of the real risk.

In addition to the lack of weighting of questions, some questions were structured in such a way that biased responses could result. Other questions were of such a nature that the preparer of the assessment may not have had a sense of independence to accurately answer the question and could feel pressured to slant a response to one more favorable to management. Two examples of such questions are, "Does management support the internal controls in place on this process?" and "Do you have a good working relationship in support of this process with your superiors and subordinates?"

**Complying with Internal Controls.** The reports generated under the Automated Risk Assessment Program included two inconsistent statements. First, when certain responses were given, the reports indicated uncertainty in whether the controls complied with the General Accounting Office Standards of Internal Control. Second, the same reports indicated that, based on the work setting and compliance with the General Accounting Office Standards of Internal Control, the existing safeguards were considered strong. DCMC needs to correct this contradiction. Furthermore, the risk assessments should determine without any uncertainty whether the assessed unit complies with the

## **Finding B. Implementing Tools for Internal Management Control**

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General Accounting Office Standards of Internal Control. Questions that allow personnel to indicate uncertainty as to whether certain controls exist should be changed to require additional review or analysis so that a "yes" or "no" determination can be made.

**Applying Existing Safeguards.** Another problem with the Automated Risk Assessment Program is the method used to determine the level of risk for the existing safeguards portion of the risk assessment. Risk ratings were determined for each of five subsections comprising the existing safeguards. These values were then combined to determine the overall risk assessment for existing safeguards. To determine the risk rating for each subsection, values were assigned to each "yes" or "no" response. These values were totaled and then divided by the number seven to arrive at the risk rating for that subsection, with a rating of one or greater being strong safeguards and less than one, weak safeguards. The number seven, however, was arbitrarily chosen as the divisor and does not appear to provide an accurate assessment of the risk. As an example, 13 questions are under the subsection "Directing Controls." "Yes" responses are given a value of one, and "no" responses are given a value of zero. Thus, 6 of the 13 questions, or 46 percent, can be answered negatively, indicating weak controls, yet the overall risk assessment for that subsection would indicate satisfactory controls. DCMC needs to devise a more appropriate system that will give a more realistic assessment of the risk.

**Manual Risk Assessment.** The purpose of the manual risk assessment is the same as that of the automated risk assessment: to provide management a measure of vulnerability to fraud, waste, or mismanagement. Under the manual risk assessment, response to questions and determination of vulnerability are manually completed by the preparer.

**Effectiveness of Manual Risk Assessments.** DCMC did not standardize the format of the questionnaires used in performing manual risk assessments. As a result, three different types of manual risk assessment questionnaires were used at the field offices visited. The use of different formats may have varying impacts on the results of the overall assessment. DCMC should standardize the questionnaire so that all district and field offices determine risk consistently.

The manual risk assessments disclosed deficiencies that, in our opinion, caused the results of the assessments to be inadequate. As with the automated risk assessment, the manual risk assessment disclosed the lack of weighting of questions and questions that could cause the preparer to either provide biased responses or feel pressured to provide responses that would be favored by management.

**Answer Keys.** The answer keys used for the manual risk assessments were inconsistent and incorrect for selected questions. DCMD Mid-Atlantic used an answer key of 1-Always, 2-Normally, 3-Sometimes, 4-Rarely, and 5-Never. DCMD West used High risk, Moderate risk, or Low risk, while DCMD Northeast used a "Yes" or "No" response. The answer keys used by DCMDs Mid-Atlantic and West did not provide appropriate responses to some of the questions being asked. For example, the DCMD Mid-Atlantic answer

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key was inappropriate for responding to the question: "The program has been in existence more than 2 years and is expected to continue for at least 2 years with no major changes." Personnel were unsure how to answer such questions and often used the middle response of "sometimes."

**Interpretation of Questions.** Negatively phrased questions confused employees, thereby causing them to answer questions in the opposite manner than intended. For example, DCMD Mid-Atlantic risk assessments required a response to, "Mission does not involve handling cash or other assets, which can be easily converted for personal gain." Other questions were vague and left open for interpretation. In several instances, employees knew they did not handle cash, but were confused by the negative phrasing of the question. Therefore, they answered "never" or "rarely" when they meant to answer "always." The misinterpretations were not caught during supervisory reviews. No criteria exist on how to interpret the questions, and thus preparers were left confused on how to respond. The question asking whether special interest has been focused on the program, in the form of congressional or higher levels of inquiry, media attention, litigation, or other concerns, is another example of a question in which personnel working in the same division could interpret the question differently. Some employees might answer the question "no," interpreting it to involve the contract administrative functions of their office, while others might answer the same question "yes," interpreting the question to involve the programs for which their office has contract administrative responsibility.

**Criteria on Conducting Risk Assessments.** In DCMD West, preparers lacked any instruction or guidance on how to assess overall risk when using the manual risk assessment method. The risk assessment was divided into three sections: Analysis of the Inherent Risk, Evaluation of Safeguards, and Analysis of the General Control Environment. Each section consisted of eight or nine questions, with the choice of responses being high risk, moderate risk, or low risk. An overall risk rating of high, moderate, or low was then determined for the section, and then ultimately for the entire risk assessment. However, no instruction exists on how to determine the overall risk for each section and for the entire assessment. Preparers that were interviewed stated they were able to arrive at low-risk ratings because almost all their responses to the questions were low risk. However, if the responses reflected a greater mixture of high, moderate, or low, the preparers did not know how to determine the overall vulnerability. DCMD Northeast also had no instruction or guidance on how to determine overall vulnerability based on manual risk assessments.

**Management Involvement.** The weaknesses noted concerning the risk assessment tools indicate a lack of management involvement with the IMC program. The problems are so evident that management should have been aware of and should have corrected these problems. In our opinion, the deficiencies continued to exist because DCMC management perceived the IMC program to be immaterial. Both DCMC Headquarters and the districts interpreted the program as one that measures the risk in terms of the costs of the office and not the potential loss of the mission being managed. For example, the risk associated with office expenses of \$300,000 would be far less



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significant than the risk associated with \$300 million of contracts administered by the office. In another example, we determined that the value assigned to computer systems was, in most cases, the value of the computer hardware and did not include the intrinsic value of the information stored in the computer. The hardware costs are, in many cases, insignificant when compared with the potential loss of irreplaceable data maintained on such equipment.

### **Performance Standards and Plans**

Supervisory personnel were generally assigned responsibility and made accountable for internal control duties. Nonsupervisory personnel preparing risk assessments and reviews were not assigned responsibility for internal control duties in their performance plans and ratings. Plans should include specific responsibility and accountability for persons in charge of assessable units and for persons assigned to perform risk assessments and reviews. In addition, while performance plans hold employees accountable, the plans should not use measurement techniques that could bias internal control results. At three of the DPROs in DCMD Mid-Atlantic, the performance plans have tied performance on internal controls to (1) "...no significant findings in internal controls," (2) "... successfully passing all internal or external reviews with no major fault found due to procedural noncompliance related to internal control," and (3) "... seldom are valid deficiencies uncovered during internal reviews." These types of criteria are more likely to lead employees to cover up deficiencies found during reviews if disclosing deficiencies would negatively impact the employees' ratings.

**Civilian Personnel.** Personnel who performed risk assessments and IMC reviews did not have IMC responsibilities in their performance plans. These employees were usually not held accountable for these duties since performance plans did not include IMC responsibilities. For example, employees grade GS-12 and below conducted IMC reviews but did not have IMC responsibilities written into their performance plans. Of the 73 performance plans we reviewed (GS-07 through GM-14 employees) for the 3 districts, 5 included a separate critical element for IMC, 21 did not mention IMC as a critical element, and 47 grouped IMC as one component of a critical element.

All personnel performing risk assessments and conducting IMC reviews should have performance plans that include IMC responsibilities, and they should be held accountable for the performance of those duties. The inclusion of IMC responsibilities in a critical element with a number of other duties may allow the significance of IMC to be weakened or create the possibility that the critical element could be met even in cases where IMC duties were deficient.

**Military Personnel.** Supervisory military personnel assigned responsibility for assessable units (such as branch and division chiefs) did not have specific written standards for IMC responsibilities. Responsibility was merely indicated by a box that was checked if the individual had IMC responsibilities. IMC accomplishments generally were not listed on annual military appraisals.

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Military appraisals usually highlight military accomplishments that promote advancement. We believe IMC responsibilities should be written into military appraisals and performance plans to help promote responsibility and accountability for the assigned assessable units.

**Monitors.** Each district and field office designated one individual as the primary IMC monitor. Field offices have also assigned individuals within the divisions as monitors. The monitor supports the program by disseminating and collecting reports and information. The monitor must also be prepared to assist local officials by explaining the IMC policies and procedures, documentation requirements, and other relevant IMC requirements. The local monitor should also be able to provide basic training on the IMC program. The monitor position goes well beyond clerical duties; however, district and field offices generally did not include the IMC responsibilities in the performance plans of the designated individuals.

At the district offices, the individuals assigned as IMC monitors did not check to see whether the reviews contained adequate supporting documentation and whether the review actually tested the control techniques as stated in the IMC reviews. The monitors primarily reviewed statements of assurance from the divisions, which were used to draft the overall annual statement of assurance for DCMC. For example, the person at DCMD West was assigned the IMC monitor position on a part-time basis in addition to regular duties and had no specific duties for IMC included in his performance plan. The DCMD West IMC monitor position has been vacant since 1991. Collecting and disseminating information was basically the only IMC duty the monitor performed because other responsibilities required most of the work day. Also, the monitor at DCMD Mid-Atlantic did a cursory review of the IMC reviews submitted because of the large number of documents received, leaving the monitor unaware that some field offices were not reviewing certain event cycles. More emphasis needs to be given to the IMC monitor positions. The function of that position should be to coordinate the IMC program in that district and verify that the program is properly and consistently implemented. Performance plans should specify internal control responsibilities, and supervisors should hold IMC monitors accountable for performance of their duties.

**Management Emphasis.** Not including IMC responsibilities as a separate critical element in civilian performance plans and military appraisals is a result of the lack of emphasis DCMC placed on the IMC program. DCMC did not verify that civilian performance plans and military appraisals included a separate critical element for IMC responsibilities. In our opinion, the lack of significance in the treatment of the IMC duties in both civilian performance plans and military appraisals shows the low level of importance DCMC gave the IMC program.

## Finding B. Implementing Tools for Internal Management Control

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### Ongoing DCMC Corrective Actions

In response to discussions about our findings, DCMC and DLA management reevaluated their procedures and processes and took action to correct the conditions identified. The DCMC ongoing corrective actions should ultimately correct all the deficiencies disclosed during the audit. Therefore, we have determined that recommendations for corrective actions are not needed. DCMC has developed the following actions to correct the deficiencies noted during our audit.

**DCMC Manual.** The One Book, scheduled for release by September 30, 1993, will standardize the format for conducting IMC reviews and risk assessments for all of DCMC.

**Risk Assessments.** District personnel rather than field office personnel will perform risk assessments for each assessable unit. The risk assessment will encompass all field offices in the district, ensuring that the most significant areas will be evaluated and that the selection of units to be assessed will be consistent.

DCMC had also initiated revisions to its Automated Risk Assessment Program. However, our review of those revisions revealed that deficiencies still existed. We furnished DCMC with our recommended changes to consider in further revisions of the Automated Risk Assessment Program. The suggestions included weighting questions so that the more significant questions are given greater emphasis in determining the overall vulnerability. We also suggested that the risk assessment format be changed to allow for matching controls to the related risk. The overall control environment may be considered adequate in relation to the overall potential risk of loss, but a critical weakness in a control related to a significant area may actually represent a high overall risk of potential loss, which should be described in the risk assessment. In addition, we suggested that certain questions be highlighted whereby a negative response, regardless of the overall rating, will necessitate an additional review to evaluate and correct the situation. For example, questions that may generate negative responses are "Does management support the internal controls in place on this process?" or "Are responsibilities divided so that no single official or worker controls all phases of a critical transaction?" A negative response to these questions is indicative of a deficiency in the control environment and would therefore need to be reviewed.

**Performance Standards and Plans.** DLA Policy Division requested DLA's offices of Civilian Personnel and Military Personnel to review issued guidance to ensure that the guidance adequately describes the IMC requirement to include IMC responsibilities and duties in performance plans. In addition, both offices were requested to issue a policy letter to principal DCMC Headquarters staff elements and primary field activities requiring that managers/supervisors and military members have IMC responsibilities included in their position descriptions and performance plans.

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## **Part III - Additional Information**

## Appendix A. Summary of Risk Assessments

<u>District/Field Office Assessable Units</u>	<u>Risk Assessments Were Prepared<sup>1</sup></u>	<u>Risk Assessments Were Complete<sup>1</sup></u>	<u>Level At Which Risk Assessments Were Performed<sup>2</sup></u>
<u>DCMD Mid-Atlantic</u>			
District Office -- Philadelphia, PA			
Command Support	No		
Contract Management	Yes	No <sup>3</sup>	Branch
Quality Assurance	Yes	Yes	Branch
P&TS <sup>4</sup>	Yes	No <sup>5</sup>	Division
DCMAO Baltimore, MD			
Command Support	Yes	No <sup>5</sup>	Branch
Contract Management	Yes	No <sup>5</sup>	Branch
Quality Assurance	Yes	Yes	Branch
P&TS	No		
DCMAO Springfield, NJ			
Command Support	No		
Contract Management	No		
Quality Assurance	Yes	Yes	Branch
P&TS	Yes	Yes	Branch
DCMAO Reading, PA			
Command Support	No		
Contract Management	Yes	No <sup>5</sup>	Branch
Quality Assurance	Yes	No <sup>5</sup>	Branch
P&TS	Yes	No <sup>5</sup>	Branch
DPRO Westinghouse			
Command Support	Yes	Yes	Division
Contract Management	Yes	No <sup>6</sup>	Branch
Quality Assurance	Yes	Yes	Branch
P&TS	Yes	Yes	Branch

See footnotes at end of appendix.

## Appendix A. Summary of Risk Assessments

<u>District/Field Office Assessable Units</u>	<u>Risk Assessments Were Prepared<sup>1</sup></u>	<u>Risk Assessments Were Complete<sup>1</sup></u>	<u>Level At Which Risk Assessments Were Performed<sup>2</sup></u>
<u>DCMD Mid-Atlantic (cont'd)</u>			
DPRO GEC/Kearfott			
Command Support	No		
Contract Management	Yes	No <sup>3</sup>	Event Cycle
Quality Assurance	Yes	No <sup>3</sup>	Branch
P&TS	Yes	No <sup>3</sup>	Event Cycle
DPRO General Electric			
Aerospace			
Command Support	Yes	No <sup>5</sup>	Branch
Contract Management	Yes	No <sup>5</sup>	Division
Quality Assurance	Yes	No <sup>5</sup>	Branch
P&TS	Yes	No <sup>5</sup>	Branch
DPRO General Dynamics			
Command Support	Yes	Yes	Division
Contract Management	Yes	Yes	Branch
Quality Assurance	Yes	Yes	Branch
P&TS	Yes	Yes	Branch
DPRO Loral			
Command Support	No		
Contract Management	Yes	Yes	Branch
Quality Assurance	Yes	Yes	Branch
P&TS	Yes	Yes	Branch
<u>DCMD West</u>			
District Office --			
El Segundo, CA			
Command Support	Yes	Yes	Branch
Contract Management	Yes	Yes	Branch
Quality Assurance	Yes	Yes	Branch
P&TS	Yes	Yes	Branch
Planning and Resource Management	Yes	Yes	Division

See footnotes at end of appendix.

## Appendix A. Summary of Risk Assessments

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District/Field Office Assessable Units	Risk Assessments Were Prepared <sup>1</sup>	Risk Assessments Were Complete <sup>1</sup>	Level At Which Risk Assessments Were Performed <sup>2</sup>
<u>DCMD West (cont'd)</u>			
Administration and Information Management	Yes	Yes	Branch
Civilian Personnel	Yes	Yes	Division
DCMAO Phoenix, AZ			
Command Support	Yes	Yes	Branch
Contract Management	Yes	Yes	Branch
Quality Assurance	Yes	Yes	Branch
P&TS	Yes	Yes	Division
DCMAO Santa Ana, CA			
Command Support	Yes	Yes	Branch
Contract Management	Yes	Yes	Branch
Quality Assurance	Yes	No <sup>7</sup>	Branch
P&TS	Yes	Yes	Branch
General Counsel/Small Business	Yes	Yes	Division
DCMAO Van Nuys, CA			
Command Support	Yes	Yes	Branch
Contract Management	Yes	Yes	Branch
Quality Assurance	Yes	Yes	Division
P&TS	Yes	Yes	Division
DPRO Hughes			
Command Support	Yes	Yes	Division
Contract Management	Yes	Yes	Branch
Quality Assurance	Yes	Yes	Branch
P&TS	Yes	Yes	Branch
DPRO McDonnell Douglas, AZ			
Command Support	Yes	Yes	Branch
Contract Management	Yes	Yes	Branch
Quality Assurance	Yes	Yes	Branch
P&TS	Yes	Yes	Branch

See footnotes at end of appendix.



## Appendix A. Summary of Risk Assessments

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<u>District/Field Office Assessable Units</u>	<u>Risk Assessments Were Prepared<sup>1</sup></u>	<u>Risk Assessments Were Complete<sup>1</sup></u>	<u>Level At Which Risk Assessments Were Performed<sup>2</sup></u>
<u>DCMD West (cont'd)</u>			
DPRO McDonnell Douglas, CA			
Command Support	Yes	Yes	Division
Contract Management	Yes	Yes	Branch
Quality Assurance	Yes	Yes	Division
P&TS	Yes	Yes	Branch
DPRO General Dynamics			
Command Support	Yes	Yes	Division
Contract Management	Yes	No <sup>7</sup>	Branch
Quality Assurance	Yes	Yes	Branch
P&TS	Yes	Yes	Branch
DPRO TRW Space			
Command Support	Yes	Yes	Branch
Contract Management	Yes	Yes	Branch
Quality Assurance	Yes	Yes	Branch
P&TS	Yes	Yes	Branch
<u>DCMD Northeast</u>			
District Office -- Boston, MA			
Command Support	Yes	Yes	Division
Contract Management	Yes	Yes	Division
Quality Assurance	No		
P&TS	Yes	Yes	Division
DCMAO Boston, MA			
Command Support	Yes	Yes	Branch
Contract Management	Yes	No <sup>3</sup>	Branch
Quality Assurance	Yes	Yes	Branch
P&TS	No		
DCMAO Garden City, NY			
Command Support	No		
Contract Management	Yes	Yes	Branch
Quality Assurance	Yes	Yes	Division
P&TS	Yes	Yes	Branch

See footnotes at end of appendix.

## Appendix A. Summary of Risk Assessments

<u>District/Field Office Assessable Units</u>	<u>Risk Assessments Were Prepared<sup>1</sup></u>	<u>Risk Assessments Were Complete<sup>1</sup></u>	<u>Level At Which Risk Assessments Were Performed<sup>2</sup></u>
<u>DCMD Northeast (cont'd)</u>			
DPRO Raytheon			
Command Support	Yes	Yes	Division
Contract Management	No		
Quality Assurance	Yes	Yes	Branch
P&TS	Yes	Yes	Branch
DPRO Grumman			
Command Support	Yes	Yes	Branch
Contract Management	Yes	Yes	Branch
Quality Assurance	Yes	Yes	Branch
P&TS	Yes	Yes	Branch

<sup>1</sup> Fourteen offices did not perform risk assessments or did not perform complete risk assessments or both. Of the 14 offices, 5 offices did not perform risk assessments on all assessable units, 4 offices performed incomplete risk assessments on assessable units, and 5 offices had both conditions. In total, 10 offices (5 with no risk assessments and 5 with both traits) did not perform risk assessments on all assessable units, and 9 offices performed incomplete risk assessments. In the 9 offices, 56 manual risk assessments were improperly completed. Details are contained in footnotes 3, 5, 6, and 7 of this appendix. We reviewed a total of 154 manual risk assessments at the 23 offices visited.

<sup>2</sup> DLAR 5010.4 specifies that risk assessments should be performed on all assessable units. Assessable units were identified as branches within the offices. Fifteen offices performed risk assessments at the division level or on event cycles instead of on branches as specified.

<sup>3</sup> The preparer or the reviewer or both did not sign or date 38 risk assessments: 1 at DCMD Mid-Atlantic, 36 at DPRO GEC/ Kearfott, and 1 at DCMAO Boston.

<sup>4</sup> Program and Technical Support Division.

<sup>5</sup> No questionnaire accompanied the overall risk rating. A total of 20 risk assessments were prepared in this manner: 1 at DCMD Mid-Atlantic, 5 at DCMAO Baltimore, 6 at DCMAO Reading, and 8 at DPRO General Electric Aerospace.

<sup>6</sup> Not all questions in the risk assessment questionnaire were answered. One risk assessment at DPRO Westinghouse was prepared in this manner.

<sup>7</sup> The preparer did not identify an overall risk level for the assessable unit. A total of five risk assessments were prepared in this manner: two at DCMAO Santa Ana and three at DPRO General Dynamics.

## Appendix B. Summary of Internal Management Control Reviews

<u>District/Field Office</u>	<u>Total Reviewed</u>	<u>No Documentation</u>	<u>Partial Documentation</u>	<u>Improper Testing</u>	<u>Fully Supported</u>
<u>DCMD Mid-Atlantic</u>					
District Office -- Philadelphia, PA	15	5	3	0	7
DCMAO Baltimore, MD	37	11	21	0	5
DCMAO Springfield, NJ	10	2	0	1	7
DCMAO Reading, PA	34	34	0	0	0
DPRO Westinghouse	20	0	6	0	14
DPRO GEC Kearfott	20	2	18	0	0
DPRO General Electric Aerospace	38	38	0	0	0
DPRO Loral	24	24	0	0	0
DPRO General Dynamics	<u>16</u>	<u>16</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal	<u>214</u>	<u>132</u>	<u>48</u>	<u>1</u>	<u>33</u>
<u>DCMD West</u>					
District Office -- El Segundo, CA	69	69	0	0	0
DCMAO Santa Ana, CA	36	33	1	1	1
DCMAO Van Nuys, CA	4	0	4	0	0
DCMAO Phoenix, AZ	65	65	0	0	0
DPRO McDonnell Douglas, AZ	3	3	0	0	0

## Appendix B. Summary of Internal Management Control Reviews

<u>District/Field Office</u>	<u>Total Reviewed</u>	<u>No Documentation</u>	<u>Partial Documentation</u>	<u>Improper Testing</u>	<u>Fully Supported</u>
<u>DCMD West (cont'd)</u>					
DPRO McDonnell Douglas, CA	11	10	0	0	1
DPRO General Dynamics <sup>1</sup>					
DPRO Hughes <sup>2</sup>	0	0	0	0	0
DPRO TRW Space <sup>3</sup>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal	<u>188</u>	<u>180</u>	<u>5</u>	<u>1</u>	<u>2</u>
<u>DCMD Northeast</u>					
District Office -- Boston, MA <sup>3</sup>	0	0	0	0	0
DCMAO Boston, MA	5	0	1	0	4
DCMAO Garden City, NY	8	5	1	0	2
DPRO Raytheon	3	2	0	0	1
DPRO Grumman	6	0	0	0	6
Subtotal	<u>22</u>	<u>7</u>	<u>2</u>	<u>0</u>	<u>13</u>
Total	<u>424</u>	<u>319</u>	<u>55</u>	<u>24</u>	<u>484</u>

<sup>1</sup> Office did not perform reviews because the office is closing.  
<sup>2</sup> Offices did not perform reviews because the office believed Defense Contract Audit Agency audits to be adequate alternative reviews.

<sup>3</sup> The activity's overall risk was low. As a result, no IMC reviews were prepared.

<sup>4</sup> In addition to the 48 fully supported IMC reviews, 2 improperly tested reviews were also fully supported, making a total of 50 fully supported IMC reviews.

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## Appendix C. Activities Visited or Contacted

### Defense Activities

Defense Logistics Agency, Alexandria, VA  
Defense Contract Management Command, Alexandria, VA  
Defense Contract Management Districts  
Mid-Atlantic, Philadelphia, PA  
Northeast, Boston, MA  
West, El Segundo, CA  
Defense Contract Management Area Offices  
Boston, MA  
Garden City, NY  
Phoenix, AZ  
Reading, PA  
Santa Ana, CA  
Springfield, NJ  
Baltimore, MD  
Van Nuys, CA  
Defense Plant Representative Offices  
GEC/Kearfott, Wayne, NJ  
General Electric Aerospace, Cherry Hill, NJ  
General Dynamics, Pomona, CA  
General Dynamics, Lima, OH  
Grumman, Bethpage, NY  
Hughes, Tucson, AZ  
Loral, Akron, OH  
McDonnell Douglas, Mesa, AZ  
McDonnell Douglas, Huntington Beach, CA  
Raytheon, Burlington, MA  
TRW Space, Redondo Beach, CA  
Westinghouse, Baltimore, MD

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## **Appendix D. Report Distribution**

### **Office of the Secretary of Defense**

Director of Defense Procurement  
Comptroller of the Department of Defense  
Assistant Secretary of Defense (Public Affairs)

### **Defense Activities**

Director, Defense Contract Audit Agency  
Director, Defense Logistics Agency  
Commander, Defense Contract Management Command

### **Non-Defense Agencies**

Office of Management and Budget  
National Security and International Affairs Division, Technical Information Center,  
General Accounting Office

Chairman and Ranking Minority Member of Each of the Following Congressional  
Committees and Subcommittees:

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Operations  
House Subcommittee on Legislation and National Security, Committee on  
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